Exhibit 28.3

BELL ATLANTIC CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheet*
(Unaudited)
(Dollars in Millions)

ASSETS

	September 30, 1991
CURRENT ASSETS	
Cash and cash equivalents	$ 149.9
Short-term investments	124.1
Accounts receivable, net of allowance of $ 118.1	1,979.5
Finance lease and notes receivable, net	540.5
Inventories	313.5
Prepaid expenses	146.8
Deferred charges and other	559.9
	3,814.2
PLANT, PROPERTY AND EQUIPMENT	31,625.0
Less accumulated depreciation	11,867.3
	19,757.7
EQUIPMENT UNDER OPERATING LEASES, NET	568.8
FINANCE LEASE AND NOTES RECEIVABLE, NET	2,218.0
INVESTMENTS IN AFFILIATES	1,057.9
DEFERRED CHARGES AND OTHER ASSETS	585.9
TOTAL ASSETS	$28,002.5

* Restated for the effect of the adoption of Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," effective January 1, 1991. See Note to Restated Condensed Consolidated Financial Statements (Exhibit 28.4).

Exhibit 28.3

BELL ATLANTIC CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheet*
(Unaudited)
(Dollars in Millions, Except Per Share Amounts)

LIABILITIES AND SHAREOWNERS' INVESTMENT

	September 30, 1991
CURRENT LIABILITIES	
Debt maturing within one year	$ 2,312.6
Accounts payable	1,929.4
Accrued expenses	485.2
Other	834.6
	5,561.8
LONG-TERM DEBT	8,241.3
DEFERRED CREDITS	
Deferred income taxes	3,041.1
Unamortized investment tax credits	612.8
Other (including $ 2,548.8 for postretirement benefits other than pensions)............	2,779.3
	6,433.2
SHAREOWNERS' INVESTMENT	
Preferred and Preference stock ($1 par value; none issued)	—
Common stock ($1 par value; 399,492,640 shares issued)	399.5
Contributed capital	5,344.7
Reinvested earnings	3,068.3
Foreign currency translation adjustment	(62.4)
	8,750.1
Less common stock in treasury, at cost	252.5
Less deferred compensation-employee stock ownership plans	731.4
	7,766.2
TOTAL LIABILITIES AND SHAREOWNERS' INVESTMENT	$ 28,002.5

* Restated for the effect of the adoption of Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," effective January 1, 1991. See Note to Restated Condensed Consolidated Financial Statements (Exhibit 28.4).

Exhibit 28.3

BELL ATLANTIC CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statement of Cash Flows*
(Unaudited)
(Dollars in Millions)

	Nine Months ended September 30, 1991
CASH FLOWS FROM OPERATING ACTIVITIES	
Loss	$ (489.0)
Adjustments to reconcile loss to net cash provided by operating activities:	
Depreciation and amortization	1,694.7
Cumulative effect of change in accounting principle.	1,554.3
Other items, net	(20.1)
Changes in certain assets and liabilities net of effects from acquisition/disposition of businesses	(123.4)
Net cash provided by operating activities	2,616.5
CASH FLOWS FROM INVESTING ACTIVITIES	
Net change in short-term investments	(99.1)
Additions to plant, property and equipment	(1,736.0)
Additions to equipment under operating leases	(83.5)
Proceeds from sale of equipment under operating leases.	54.6
Additions to finance lease and notes receivable	(986.6)
Proceeds from sales related to finance lease and notes receivable	100.2
Principal payments received under finance lease and notes receivable	675.4
Investment in Telecom Corporation of New Zealand Limited	(189.6)
Investment in joint venture	(10.8)
Proceeds from sale of ownership interest in Telecom Corporation of New Zealand Limited	395.5
Proceeds from disposition of businesses	4.2
Other, net	(11.0)
Net cash used in investing activities	(1,886.7)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from borrowings	558.9
Principal repayments of borrowings and capital lease obligations	(540.1)
Net change in short-term borrowings with original maturities of three months or less	(16.4)
Dividends paid	(727.5)
Purchase of common stock for treasury	(15.3)
Sale of treasury stock	65.8
Net cash used in financing activities	(674.6)
INCREASE IN CASH AND CASH EQUIVALENTS	55.2
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	94.7
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 149.9

* Restated for the effect of the adoption of Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," effective January 1, 1991. See Note to Restated Condensed Consolidated Financial Statements (Exhibit 28.4).

Exhibit 28.3

BELL ATLANTIC CORPORATION AND SUBSIDIARIES
Computation of Per Share Earnings*
(Dollars in Millions Except Per Share Amounts)

	Three Months ended Sept. 30, 1991	Nine Months ended Sept. 30, 1991
Income Before Cumulative Effect of Change in Accounting Principle................	$ 374.0	$ 1,065.3
Tax Benefit of Dividends Paid on Shares Held by Employee Stock Ownership Plans................	3.7	10.8
Income Before Cumulative Effect of Change in Accounting Principle for Per Share Calculation.................................	377.7	1,076.1
Cumulative Effect of Change in Accounting Principle-Transition Effect of Change in Accounting for Postretirement Benefits Other Than Pensions.............................	—	(1,554.3)
Net Income (Loss) for Per Share Calculation...	$ 377.7	$ (478.2)
Earnings (Loss) Per Common Share		
Weighted Average Shares Outstanding...........	393,856,047	393,465,324
Incremental Shares From Assumed Exercise of Stock Options and Payment of Performance Share Awards..............................	842,446	820,839
Total Shares.................................	394,698,493	394,286,163
Income Before Cumulative Effect of Change in Accounting Principle...............	$ .96	$ 2.73
Cumulative Effect of Change in Accounting Principle-Transition Effect of Change in Accounting for Postretirement Benefits Other Than Pensions..............................	—	(3.94)
Net Income (Loss)............................	$ .96	$ (1.21)
Fully Diluted Earnings (Loss) Per Common Share**		
Weighted Average Shares Outstanding...........	393,856,047	393,465,324
Incremental Shares From Assumed Exercise of Stock Options and Payment of Performance Share Awards..............................	1,111,719	1,036,130
Total Shares.................................	394,967,766	394,501,454
Income Before Cumulative Effect of Change in Accounting Principle...............	$ .96	$ 2.73
Cumulative Effect of Change in Accounting Principle-Transition Effect of Change in Accounting for Postretirement Benefits Other Than Pensions..............................	—	(3.94)
Net Income (Loss)............................	$ .96	$ (1.21)

*Restated for the effect of the adoption of Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," effective January 1, 1991. See Note to Restated Condensed Consolidated Financial Statements (Exhibit 28.4).

**Fully diluted earnings per share calculation is presented in accordance with Regulation S-K item 601(b)(11) although not required by footnote 2 to paragraph 14 of Accounting Principles Board Opinion No. 15 because it results in dilution of less than 3%.

Exhibit 28.3

BELL ATLANTIC CORPORATION AND SUBSIDIARIES

Computation of Ratio of Earnings to Fixed Charges*

(Dollars in Millions)

	Nine Months ended September 30, 1991
Income before provision for income taxes and cumulative effect of change in accounting principle..................	$ 1,594.4
Equity in income of less than majority-owned subsidiaries....................	(62.5)
Dividends from less than majority-owned subsidiaries..........................	39.3
Interest expense, including interest on capital lease obligations.............	670.9
Portion of rent expense representative of the interest factor.................	74.4
Income, as adjusted....................	$ 2,316.5
Fixed charges:	
Interest expense, including interest on capital lease obligations.............	$ 670.9
Portion of rent expense representative of the interest factor.................	74.4
Interest capitalized on construction....	5.1
Fixed charges..........................	$ 750.4
Ratio of Earnings to Fixed Charges......	3.09

* Restated for the effect of the adoption of Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," effective January 1, 1991. See Note to Restated Condensed Consolidated Financial Statements (Exhibit 28.4).

Exhibit 28.4

BELL ATLANTIC CORPORATION AND SUBSIDIARIES

Note To Restated Condensed Consolidated Financial Statements
For Quarters Ended March 31, June 30, and September 30, 1991

POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

Effective January 1, 1991, the Company has adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," (Statement No. 106). Statement No. 106 requires accrual accounting for all postretirement benefits other than pensions. Under the prescribed accrual method, the Company's obligation for these postretirement benefits is to be fully accrued by the date the employees attain full eligibility for such benefits. Prior to the adoption of Statement No. 106, the cost of these benefits for management retirees was recognized by charging claims to expense as they were incurred. The cost of these benefits for current and future associate retirees was recognized as determined under the aggregate cost actuarial method.

In conjunction with the adoption of Statement No. 106, for financial reporting purposes, the Company has elected to immediately recognize the accumulated postretirement benefit obligation for current and future retirees, net of the fair value of plan assets and recognized accrued postretirement benefit cost (transition obligation). An order released by the Federal Communications Commission (FCC) on December 26, 1991 permits adoption of Statement No. 106 on or before January 1, 1993 for regulatory accounting purposes, and requires that the transition obligation be amortized for regulatory purposes. This FCC action does not preclude the Company from electing to recognize the entire transition obligation for financial reporting purposes in 1991.

Substantially all of the Company's employees are covered under postretirement health and life insurance benefit plans. The determination of postretirement benefit cost for postretirement health benefit plans is based on comprehensive hospital, medical, surgical and dental benefit provisions. The postretirement life insurance benefit formula used in determination of postretirement benefit cost is primarily based on annual basic pay at retirement.

The Company funds for associate postretirement health benefits and associate and salaried employee postretirement life insurance benefits. The Company's objective in funding these plans is to accumulate funds at a relatively stable rate over participants' working lives so that benefits are fully funded at retirement. Plan assets consist principally of investments in domestic and nondomestic corporate equity securities, and U.S. Government and corporate debt securities.

BELL ATLANTIC CORPORATION AND SUBSIDIARIES

Note To Restated Condensed Consolidated Financial Statements
For Quarters Ended March 31, June 30, and September 30, 1991

POSTRETIREMENT BENEFITS OTHER THAN PENSIONS (Continued)

Postretirement benefit cost for 1991 is expected to be composed of the following:

	(Dollars in Millions)
Service cost	$ 57.7
Interest cost	252.0
Expected return on assets	(51.0)
Amortization of prior service cost	.3
Total postretirement benefit cost	$ 259.0
Accrued transition obligation	$ 2,499.9

The following table sets forth the plans' funded status and amounts recognized in the Company's Consolidated Balance Sheets:

	As of January 1, 1991 (Dollars in Millions)
Accumulated postretirement benefit obligation attributable to:	
Retirees	$ 1,684.3
Fully eligible plan participants	339.7
Other active plan participants	1,114.4
Total accumulated postretirement benefit obligation	3,138.4
Fair value of plan assets	638.5
Excess of accumulated postretirement benefit obligation over plan assets	2,499.9
Unrecognized prior service cost	—
Unrecognized net gain/loss	—
Unrecognized transition obligation	—
Accrued postretirement benefit liability	$ 2,499.9

BELL ATLANTIC CORPORATION AND SUBSIDIARIES

Note To Restated Condensed Consolidated Financial Statements
For Quarters Ended March 31, June 30, and September 30, 1991

POSTRETIREMENT BENEFITS OTHER THAN PENSIONS (Continued)

The assumed discount rate used to measure the accumulated postretirement benefit obligation was 8.0% at December 31, 1990. The assumed rate of future increases in compensation levels was 5.25% at December 31, 1990. The expected long-term rate of return on plan assets was 7.5% for 1991. The medical cost trend rate in 1991 was approximately 15.0%, grading down to an ultimate rate in 2003 of approximately 5.0%. The dental cost trend rate in 1991 and thereafter is approximately 4.0%. A one percentage point increase in the assumed health care cost trend rates for each future year increases the aggregate of the service and interest cost components of annual net periodic postretirement benefit cost and the accumulated postretirement benefit obligation as of January 1, 1991 by $44.5 million and $380.4 million, respectively.

In the past, the Company has entered into labor negotiations with unions representing certain employees and expects to do so in the future. Certain other postretirement benefits have been included in these negotiations and such benefits have been modified from time to time. Additionally, the Company has amended the benefits under postretirement benefit plans maintained for its salaried employees. Expectations with respect to certain future amendments to the Company's postretirement benefit plans have been reflected in determining the Company's postretirement benefit cost under Statement No. 106.

Exhibit 28.5

BELL ATLANTIC CORPORATION AND SUBSIDIARIES

Restated Condensed Consolidated Financial Statements
For Quarters Ended March 31, June 30, and September 30, 1991

Supplemental Information

Rates of Return on Average Equity*

Three months ended March 31, 1991....................	(2.3)%
Three months ended June 30, 1991......................	18.2%
Six months ended June 30, 1991.......................	(2.3)%
Three months ended September 30, 1991.................	19.2%
Nine months ended September 30, 1991..................	(1.8)%

Debt Ratio*

March 31, 1991..	59.2%
June 30, 1991...	59.2%
September 30, 1991......................................	57.6%

*Restated for the effect of the adoption of Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," effective January 1, 1991. See Note to Restated Condensed Consolidated Financial Statements (Exhibit 28.4).

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

|X| ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1991

OR

|_| TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 1-3488

NEW JERSEY BELL TELEPHONE COMPANY

State of Incorporation: New Jersey I.R.S. Employer Identification Number: 22-1151770

540 Broad Street, Newark, New Jersey 07101

Telephone Number 201 649-9900

Securities registered pursuant to Section 12(b) of the Act: See attached Schedule A.

Securities registered pursuant to Section 12(g) of the Act: None.

THE REGISTRANT, A WHOLLY-OWNED SUBSIDIARY OF BELL ATLANTIC CORPORATION, MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION J(1)(a) AND (b) OF FORM 10-K AND IS THEREFORE FILING THIS FORM WITH REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTION J(2).

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ____

NEW JERSEY BELL TELEPHONE COMPANY

Schedule A

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Forty Year 7 1/4% Debentures, due April 1, 2011	New York Stock Exchange
Forty Year 7 3/8% Debentures, due June 1, 2012	New York Stock Exchange
Forty Year 7 3/4% Debentures, due September 1, 2013	New York Stock Exchange
Forty Year 8 1/4% Debentures, due February 15, 2016	New York Stock Exchange
Forty Year 8% Debentures, due September 15, 2016	New York Stock Exchange
Forty Year 8 3/4% Debentures, due June 1, 2018	New York Stock Exchange

NEW JERSEY BELL TELEPHONE COMPANY

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PART I

UNLESS OTHERWISE INDICATED, ALL INFORMATION IS AS OF MARCH 23, 1992.

NEW JERSEY BELL TELEPHONE COMPANY

PART I

Item 1. Business

THE COMPANY

New Jersey Bell Telephone Company (Company) is incorporated under the laws of the State of New Jersey and has its principal offices at 540 Broad Street, Newark, New Jersey 07101 (telephone number 201-649-9900). The Company is a wholly-owned subsidiary of Bell Atlantic Corporation (Bell Atlantic).

The Company presently serves a territory consisting of three Local Access and Transport Areas (LATAs). These LATAs are generally centered on a city or other identifiable community of interest, and each LATA marks the boundary within which the Company may provide telephone service.

The Company provides two basic types of telecommunications services. First, the Company transports telecommunications traffic between subscribers located within the same LATA (intraLATA service), including both local and toll services. The Company also earns interLATA toll revenue from the provision of telecommunications service between LATAs (interLATA service) in corridors between Northern New Jersey and New York City, and Southern New Jersey and Southeastern Pennsylvania if a subscriber elects to use the services of the Company in such corridors. Second, the Company provides exchange access service, which links a subscriber's telephone or other equipment to the transmission facilities of interexchange carriers which, in turn, provide interLATA service. (See "Line of Business Restrictions.")

OPERATIONS

The Company's lines of business comprise Local Service, Network Access, Toll Service, and Directory, Billing and Other Services. Local Service includes the provision of local exchange ("dial tone"), local private line, and public telephone services. Among other services provided in this category are Centrex (central office-based switched telephone service enabling the subscriber to make both intercom and outside calls) and a variety of special and custom calling services. Network Access is the provision to interexchange carriers and local exchange carriers of access to the local exchange network for switched transmissions, and provision to subscribers (including end-users) of dedicated private lines for voice and data transmissions. Toll service includes message toll service (MTS) (calling service beyond the local calling area) within LATA boundaries, and intraLATA Wide Area Toll Service (WATS)/800 services (volume discount offerings for customers with highly concentrated demand). Directory, Billing and Other Services includes directory publishing (both Yellow Pages and White Pages), billing services for interexchange and other carriers and information service providers, and customer premises services such as inside wire installation and maintenance. The Company also provides various operator services.

The Company provides billing and collection services, including recording, rating, bill processing and bill rendering, for interexchange carriers. The largest purchaser of billing and collection services is American Telephone and Telegraph Company (AT&T). During the last several years, however, AT&T ceased its purchase of interstate WATS and private line billing and of billing inquiry services from the Company, as well as its purchase of MTS billing for a small percentage of its total customer base. By October 1991, AT&T had also ceased its purchase of rating and most recording services from the Company. The Company has also entered into arrangements to provide billing services for MCI Communications Corporation (MCI), US Sprint Communications Company (US Sprint) and certain other carriers.

The Company has been making and expects to continue to make significant construction expenditures to meet the demand for communications services and to further improve such services. The total investment in plant, property and equipment increased from $7,754.5 million at December 31, 1989 to $8,102.9 million at December 31, 1990, and to $8,391.7 million at December 31, 1991, in each case after giving effect to retirements, but before deducting accumulated depreciation at such date. Construction expenditures of the Company were $616.9 million in 1990 and $609.0 million in 1991 (see Item 2 - "Properties" for an analysis by component of such expenditures).

The Company is projecting construction expenditures of approximately $650.0 million for 1992. Most of these funds are expected to be generated internally. Some external financing may be necessary or desirable.

LINE OF BUSINESS RESTRICTIONS

Prior to January 1, 1984, the Company was an associated company of the Bell System and was a wholly-owned subsidiary of AT&T. Pursuant to a court-approved divestiture (Divestiture), AT&T transferred those assets of the Bell System operating companies (BOCs), including the Company, that related to exchange telecommunications, exchange access functions and printed directory advertising to seven newly formed regional holding companies (RHCs), including Bell Atlantic.

The consent decree (Consent Decree) and the plan of reorganization (Plan), which set forth the terms of Divestiture, contained certain provisions relating to the post-Divestiture activities of the RHCs. The Consent Decree's principal restrictions on post-Divestiture activities of the RHCs included prohibitions on providing interexchange telecommunications or information services, engaging in the manufacture of telecommunications equipment and customer premises equipment (CPE)*, or entering into any non-telecommunications businesses without Court approval. The United States District Court for the District of Columbia (Court) has retained jurisdiction over the construction, modification, implementation and enforcement of the Consent Decree.

On September 10, 1987, the Court issued an opinion eliminating the prohibition on entering into any non-telecommunications business. However, the Court refused to eliminate the restrictions relating to manufacturing or providing interexchange services. With respect to information services, the Court issued an opinion on March 7, 1988 which permitted the RHCs to engage in a number of information transport functions as well as voice storage and retrieval services, including voice messaging and electronic mail offerings and certain information gateway services. The RHCs were generally prohibited, however, from providing the content of the data they transmit. As the result of an appeal by Bell Atlantic, the other RHCs and other parties of the Court's September 10, 1987 decision, the Court of Appeals ordered the Court to reconsider the RHCs' request to provide information content under a standard more favorable to the RHCs. On July 25, 1991, the Court granted that request, but imposed a stay pending appeal of that decision. On October 7, 1991, the Court of Appeals vacated the stay, permitting the RHCs to provide information services.

* Customer premises equipment includes telephone sets and private branch exchanges (PBXs) used by a customer on the customer's premises to originate, route or receive telecommunications.

FCC REGULATION AND INTERSTATE RATES

The Company is subject to the jurisdiction of the Federal Communications Commission (FCC) with respect to interstate services and certain related matters. The FCC prescribes a uniform system of accounts for telephone companies, interstate depreciation rates and the principles and standard procedures used to separate plant investment, expenses, taxes and reserves between those applicable to interstate services under the jurisdiction of the FCC and those applicable to intrastate services under the jurisdiction of the respective state regulatory authorities (separations procedures). The FCC also prescribes procedures for allocating costs and revenues between regulated and unregulated activities.

Interstate Access Charges

The Company provides intraLATA service but, with limited exception, does not participate in the provision of interLATA service except through offerings of exchange access service. The FCC has prescribed structures for exchange access tariffs to specify the charges (Access Charges) for use of the Company's facilities used or available for the origination and termination of interstate interLATA service. These charges are intended to recover the related costs of the Company which have been allocated to the interstate jurisdiction (Interstate Costs) under the FCC's separations procedures.

In general, the tariff structures prescribed by the FCC provide that Interstate Costs of the Company which do not vary based on usage (non-traffic sensitive costs) are recovered from subscribers through flat monthly charges (Subscriber Line Charges) and from interexchange carriers through usage sensitive Carrier Common Line (CCL) charges (see "FCC Access Charge Pooling Arrangements"). Traffic-sensitive Interstate Costs are recovered from carriers through variable access charges based on several factors, primarily usage.

In May 1984, the FCC authorized the implementation of Access Charge tariffs for "switched access service" (access to the local exchange network) and of Subscriber Line Charges for multiple line business customers (up to $6.00 per month per line). In June 1985, the FCC authorized Subscriber Line Charges for residential and single-line business customers at the rate of $1.00 per month per line, which increased to $2.00 effective June 1, 1986, to $2.60 effective July 1, 1987, to $3.20 effective December 1, 1988, and to $3.50 on April 1, 1989.

As a result of the phasing in of Subscriber Line Charges, a substantial portion of non-traffic sensitive Interstate Costs is now recovered directly from subscribers, thereby reducing the per-minute CCL charges to interexchange carriers. The significant reduction in CCL charges has tended to reduce the incentive for interexchange carriers and their high volume customers to bypass the Company's switched network via special access lines or alternative communications systems. (See "COMPETITION-Bypass.")

FCC Access Charge Pooling Arrangements

The FCC previously required that all local exchange carriers (LECs), including the Company, pool revenues from CCL and Subscriber Line Charges which cover Interstate Costs associated with the lines from subscribers' premises to telephone company central offices, i.e., the non-traffic sensitive costs of the local exchange network. To administer such pooling arrangements, the FCC mandated the formation of the National Exchange Carrier Association, Inc. (NECA).

Some LECs received more revenue from the pool than they billed their interexchange carrier customers using the nationwide average CCL rate. Other companies, including the Company, received substantially less from the pool than the amount billed to their interexchange carrier customers.

By an Order adopted in 1987, the FCC changed its mandatory pooling requirements. These changes, which were effective April 1, 1989, permitted the Company to withdraw from the pool and to charge CCL rates which more closely reflect their non-traffic sensitive costs. The Company is still obligated to make contributions of CCL revenues to companies who choose to continue to pool non-traffic sensitive costs so that the pooling companies can charge a CCL rate no greater than the nationwide average CCL rate. In addition to this continuing obligation, the Company has a transitional support obligation to high cost companies who left the pool in 1989 and 1990. This transitional support obligation phases out over five years. These long-term and transitional support requirements will be recovered in the Company's CCL rates.

Depreciation

Depreciation rates provide for the recovery of the Company's investment in telephone plant, and are revised periodically to reflect more current estimates of remaining service lives and future net salvage. In January 1988, the FCC issued an Order requiring LECs such as the Company to amortize certain interstate depreciation reserve deficiencies over a five-year period, retroactive to January 1, 1987. The FCC had previously authorized the amortization of these differences by the Company over a shorter period. In August 1991, the FCC ordered the Company to amortize the remaining balance of the reserve deficiencies over the period from July 1991 to June 30, 1992.

Interstate Access Rate of Return

Pursuant to rules it adopted in 1985 and 1986, the FCC prescribes the rate of return on the interstate access services of LECs such as the Company. The FCC has set an 11.25 percent return for 1991 and beyond. This rate of return serves as a benchmark for regulation of the Company under price cap regulation. (See "Price Caps.")

The FCC had also adopted rate of return enforcement rules, which required carriers to target their rates to produce the prescribed return and to refund automatically earnings in excess of their allowable return (the prescribed target return plus an increment of 25 basis points on overall earnings or 40 basis points on each of three categories of service). On January 22, 1988, the U.S. Court of Appeals for the District of Columbia Circuit held that the FCC's automatic refund rule was arbitrary and capricious, and remanded the case to the FCC so that it could, if it wished, promulgate a new refund rule. The FCC subsequently stayed indefinitely any requirement that carriers refund excess earnings for the initial enforcement period (October 1985 through December 1986), during which time the prescribed rate of return was 12.75%. The FCC has taken no action to revise its enforcement rules. The FCC has, however, permitted access customers to file complaints for damages in which the damages are calculated in accordance with the FCC's automatic refund methodology. Appeals of the FCC's rulings permitting such complaints to be filed were dismissed as premature. The Company has settled the major complaints.

Under FCC-approved tariffs, all of the Bell Atlantic telephone companies are charging uniform rates for interstate access services (with the exception of Subscriber Line Charges) in all Bell Atlantic jurisdictions, and are regarded as a single unit by the FCC for rate of return measurement.

Price Caps

On September 19, 1990, the FCC adopted "price cap" regulation as a replacement for traditional rate of return regulation for LECs, such as the Company. The new system places a cap on overall prices for interstate services and requires that the cap decrease annually, in inflation-adjusted terms, by a fixed amount which is intended to reflect expected increases in productivity. The price cap level can also be adjusted to reflect "exogenous" changes, such as changes in FCC separations or accounting rules. LECs subject to price caps have somewhat increased flexibility to change the prices of existing services within certain groupings of interstate services, known as "baskets".

Under price cap regulation, the Company can earn a rate of return on overall investments of up to 12.25% (100 basis points over the currently authorized rate of return of 11.25%). If the Company's rate of return is between 100 and 500 basis points above the authorized rate of return (that is, currently, between 12.25% and 16.25%), the Company must share 50% of the earnings above the 100-basis-point level with customers by reducing rates prospectively. All earnings above the 500-basis-point level must be returned to customers in the form of prospective rate decreases. If, on the other hand, the Company's rate of return is more than 100 basis points below the authorized rate of return (that is, currently, below 10.25%), the Company is permitted to increase rates prospectively to make up the deficiency.

LEC price cap regulation took effect on January 1, 1991. The LEC price cap order has been appealed by several parties to the United States Court of Appeals for the District of Columbia Circuit. These appeals are being held in abeyance pending the FCC's resolution of pending petitions for reconsideration. Pending a decision on these appeals, which is unlikely to occur within the next year, price cap regulation remains in effect for the Company.

Computer Inquiry III

In August 1985, the FCC initiated Computer Inquiry III to re-examine its regulations requiring that "enhanced services" (e.g., voice message services, electronic mail, videotext gateway, protocol conversion) be offered only through a structurally separated subsidiary. In 1986, the FCC eliminated this requirement, permitting the Company to offer enhanced services, subject to compliance with a series of nonstructural safeguards designed to promote an effectively competitive market. These safeguards include detailed cost accounting, protection of customer information and certain reporting requirements.

In June 1990, the United States Court of Appeals for the Ninth Circuit vacated and remanded the Computer Inquiry III decisions, finding that the FCC had not fully justified those decisions. On December 20, 1991, the FCC adopted an order on remand which reinstated structural relief upon a company's compliance with the FCC's Computer III Open Network Architecture (ONA) requirements, and strengthened some of the nonstructural safeguards. In the interim, the Company had filed an interstate tariff implementing the ONA requirements. That tariff became effective on February 2, 1992, subject to further investigation. On March 9, 1992, the Company certified to the FCC that it had complied with all initial ONA obligations and should be granted structural relief for enhanced services. The FCC is expected to rule on that certification after mid-April 1992.

The FCC's December 1991 order has been appealed to various United States Courts of Appeals by several parties. Pending decisions on those appeals, which are not expected to occur before 1993, the FCC's decision remains in effect. If a Court again reverses the FCC, the Company's right to offer enhanced services could be impaired.

FCC Cost Allocation Rules

In 1987, the FCC adopted rules governing (1) the allocation of costs between regulated and nonregulated activities and (2) transactions with affiliates. Pursuant to those rules, the Company has filed a cost allocation manual which has been approved by the FCC.

The cost allocation rules apply to activities that have never been regulated as communications common carrier offerings and to activities that have been pre-emptively deregulated by the FCC. The costs of these activities are removed prior to the separations process, and are allocated to non-regulated activities in the aggregate, not to specific services for pricing purposes. Other activities must be accounted for as regulated activities, and their costs will be subject to separations. These include (1) activities which have been deregulated by the FCC without pre-empting state regulation, (2) activities which have been deregulated by a state but not the FCC and (3) "incidental activities," which cannot, in the aggregate, produce more than 1% of a company's revenues.

The affiliate transaction rules generally require that assets be transferred between affiliates at market price, if such price can be established through a tariff or a prevailing price charged to third parties. In the absence of such information, transfers from a regulated to an unregulated affiliate must be valued at the higher of cost or fair market value, and transfers from an unregulated to a regulated affiliate must be valued at the lower of cost or fair market value. Services provided to an affiliate must be valued at tariff rates, or market prices if the service is also provided to unaffiliated entities. If the affiliate does not also provide the service to unaffiliated entities, the price must be determined in accordance with the FCC's cost allocation principles.

The FCC has not made its rules pre-emptive. State regulatory authorities are free to use different cost allocation methods and affiliate transaction rules for intrastate ratemaking, and to require carriers to keep separate allocation records.

Telephone Company/Cable Television Cross-Ownership

In 1987, the FCC initiated an inquiry into whether developments in the cable and telephone industries warranted changes in the "cross-ownership" rules prohibiting telephone companies such as the Company from providing cable service in their service territories directly or indirectly through an affiliate.

On November 22, 1991, the FCC released a Further Notice of Proposed Rulemaking (FNPRM) in its cross-ownership proceedings. The FNPRM proposes to permit telephone companies such as the Company to provide video dial tone service on a common carrier basis.

The FCC also released a First Report and Order (Order) and a Second Further Notice of Inquiry (FNOI). In the Order, the FCC ruled that neither telephone companies that provide video dial tone service, nor video programmers that use these services, are required to obtain local cable franchises. The FNOI asks for comments on whether the FCC should recommend to Congress any changes in the statute prohibiting telephone companies from providing cable service in their telephone service areas.

Interconnection and Collocation

On June 6, 1991, the FCC released a Notice of Proposed Rulemaking (NPRM) which proposes to allow third parties to collocate their equipment in, or very near, telephone company offices to provide special access (private line) services to the public. The FCC's stated purpose for the proposed rulemaking is to encourage greater competition in the provision of interstate special access services. The FCC has tentatively concluded that collocating parties would pay the telephone company an interconnection charge that is lower than the existing tariffed rates for similar non-collocated services. In the same release, the FCC issued a Notice of Inquiry (NOI) asking what policies it should adopt in regard to interstate switched access collocation. Comments and replies to the NPRM and NOI have been filed by the Bell Atlantic telephone companies and others. The FCC has not reached a final decision in either part of the proceeding, nor can the Company predict when such a decision will be made.

If the FCC permits increased competition by allowing collocation, the Company's revenues would be adversely affected, although some of the lost revenues could be offset by increased demand if, as the Bell Atlantic telephone companies requested in their comments, the FCC provides the Company with greater pricing flexibility. Collocation for the provision of switched access services would result in greater revenue losses to the Company than would special access collocation. The Company will not be able to estimate the revenue impact of either type of collocation until the conditions of collocation (if any) are determined and announced by the FCC.

Intelligent Networks

On December 6, 1991, the FCC issued a Notice of Inquiry (NOI) into the plans of exchange carriers, including the Company, to deploy new "modular" network architectures, such as Advanced Intelligent Network (AIN) technology. The NOI asks what, if any, regulatory action the FCC should take to assure that such architectures are deployed in a manner that is "open, responsive, and procompetitive". The FCC is still accepting comments on this NOI, and the Company cannot predict when the FCC will issue an order in this proceeding.

The results of this inquiry could include a requirement that the Company offer individual components of its services, such as switching and transport, to competitors who will provide the remainder of such services through their own facilities. Such increased competition could divert revenues from the Company. However, deployment of AIN technology may also enable the Company to respond more quickly and efficiently to customer requests for new services. This could result in increased revenues from new services that could at least partially offset the expected competitive losses.

STATE REGULATION AND INTRASTATE RATES

The communications services of the Company are subject to regulation by the New Jersey Board of Regulatory Commissioners (BRC) with respect to intrastate rates and services, intrastate depreciation rates and other matters.

In June 1987, the BRC (which was then known as the Board of Public Utilities) issued an Order approving a Rate Stability Plan (RSP) that modified the way the BRC monitors the Company's intrastate earnings. The RSP also capped intrastate tariffed rates for the six year duration of the plan (July 1, 1987 through June 30, 1993), subject, however, to certain exceptions which would permit the Company to seek increases in tariffed rates during the fourth through sixth years of the plan.

The RSP separates the Company's intrastate services into two categories, Group I (more competitive) and Group II (less competitive). Only the Group II services are subject to financial performance monitoring by the BRC for the purpose of determining whether or not the Company is earning the target rate of return for those services. On January 19, 1989, the BRC issued an Order which established a target rate of return on equity of 12.9% for the purpose of monitoring the financial performance of the Group II category of services. Under the RSP, the Group I services are allowed to earn according to the market, without restriction. Services initially comprising the Group I category were Directory Advertising, Centrex, Coin Services, High Capacity Channel and Special Access Services, Public Data Networks, Central Office Local Area Networks, and Billing and Collection Services. Subsequently, the following additional services were added to Group I: Pay-Per-View ordering service, High Capacity Digital Hand-off Service, and Bellboy® paging service, 911 enhanced terminal equipment, Home Intercom, Intercom Extra, Centrex Digital Services, Centrex Health Care Feature Package, Centrex Automatic Call Distribution, and a Dial Up Feature Option for Centrex Call Management.

In the Group II category, the Company introduced 800 Data Base Complementary Service which enables interexchange carriers to provide end users with intrastate interLATA 800 service as a complement to the Company's existing intraLATA 800 service, 911 Enhanced Service, and Repeat Call and Return Call on a per use basis (in addition to a monthly subscription).

New regulatory reform legislation became effective in January 1992. The legislation enables the BRC to adopt alternative regulatory frameworks that provide incentives to telecommunications companies for aggressive deployment of new technology. The legislation also deregulates services which the BRC has found to be competitive.

NEW PRODUCTS AND SERVICES

Information Services

In 1989, the Company began the controlled introduction of Answer Call, a telephone answering service aimed at residential and small business customers. In May 1990, this service was made available throughout the state. The Company began offering voice mail in April 1991. The Company also offers electronic mail services, and has conducted service trials for call delivery services.

COMPETITION

Regulatory proceedings, as well as new technology, are continuing to expand the types of available communications services and equipment and the number of competitors offering such services. An increasing amount of this competition is from large companies which have substantial capital, technological and marketing resources.

Bypass

A substantial portion of the Company's revenues from business and government customers is derived from a relatively small number of large, multiple-line subscribers.

The Company faces competition from alternative communications systems, constructed by large end users or by interexchange carriers, which are capable of originating and/or terminating calls without the use of the local telephone company's plant.

Other potential sources of competition are cable television systems, shared tenant services and other non-carrier systems which are capable of bypassing the Company's local plant either completely, or partially, through substitution of special access for switched access or through concentration of telecommunications traffic on fewer of the Company's lines.

The Company seeks to meet such bypass competition by maintaining competitive cost-based prices for exchange access (to the extent the FCC and state regulatory authorities permit the Company's prices to move toward costs), by keeping service quality high and by effectively implementing advances in technology. (See "FCC Regulation and Interstate Rates - Interstate Access Charges", "FCC Access Charge Pooling Arrangements.")

Personal Communications Services

Radio-based personal communications services also constitute potential sources of competition to the Company. The FCC has authorized trials of such services, using a variety of technologies, by numerous companies. On January 16, 1992, the FCC adopted a Notice of Proposed Rulemaking to allocate a portion of the radio spectrum to emerging telecommunications technologies, including Personal Communications Services (PCS). PCS consists of a series of wireless portable telephone services which would allow customers to make and receive calls from any location using small handsets. If implemented, PCS and other similar services would compete with services currently offered by the Company, and could result in losses of revenues to the Company, although the Company may be able to derive new revenues if it obtains authorization to provide PCS or similar new services. If PCS is implemented, the FCC is expected to authorize more than a single service provider in each geographic area.

Centrex

The Company offers Centrex service, which is a central office-based communications system for business, government and other institutional customers consisting of a variety of integrated software-based features located in a centralized switch or switches and extended to the customer's premises primarily via local distribution facilities. In the provision of Centrex, the Company encounters increasing competition from the providers of CPE systems, such as private branch exchanges (PBXs), which perform similar functions with less use of the Company's switching facilities.

Users of Centrex systems generally require more subscriber lines than users of PBX systems of similar capacity. The FCC increased the maximum Subscriber Line Charge on embedded Centrex lines to $6.00 effective April 1, 1989. Increases in Subscriber Line Charges result in Centrex users incurring higher charges than users of comparable PBX systems. The BRC has permitted flexible pricing for certain Centrex services which helps to offset the effects of such higher Subscriber Line Charges.

IntraLATA Competition

The ability of interexchange carriers to engage in the provision of intrastate intraLATA toll service in competition with the Company is subject to state regulation. In an Order issued June 11, 1984, the BRC prohibited intraLATA competition. More recently, as a result of orders of the BRC, certain interexchange carriers, including AT&T, US Sprint, and MCI, have been permitted to complete intraLATA traffic for specific services, subject to the payment of compensation to the Company.

Directory

The Company's directory operations continue to face significant competition from other providers of directories, as well as competition from other advertising media. In particular, the former sales representative of several of Bell Atlantic's telephone subsidiaries publishes directories competitive with those produced by the Company.

Coin Telephone Service

The Company faces increasing competition in the provision of coin telephone services.

Operator Services

Alternative operator services providers have entered into competition with the Company's operator services product line.

CERTAIN CONTRACTS AND RELATIONSHIPS

The Company is a party to various arrangements for provisions to the Company of management advice and assistance and of technical research and development.

Certain planning, marketing, procurement, financial, legal, accounting, technical support and other management services are provided for the Company on a centralized basis through Bell Atlantic Network Services, Inc. (NSI), a service subsidiary of Bell Atlantic. Bell Atlantic Network Funding Corporation provides financing services to the Company.

The seven RHCs each own (directly or through subsidiaries) a one-seventh interest in Bell Communications Research, Inc. (Bellcore). Pursuant to the Plan, this organization furnishes the RHCs and their BOC subsidiaries with technical assistance such as network planning, engineering and software development, as well as various other consulting services that can be provided more effectively on a centralized basis. Bellcore is the central point of contact for coordinating the efforts of the RHCs in meeting the national security and emergency preparedness requirements of the federal government. It also helps to mobilize the combined resources of the companies in times of natural disasters.

EMPLOYEE RELATIONS

As of December 31, 1991, the Company employed 17,044 persons, representing a 7.2% decrease from the number of employees at December 31, 1990. The decrease was primarily the result of a Corporate retirement incentive and restructure initiative.

Approximately one-fourth of these employees are members of the centralized staff of NSI, performing services for the Company on a contract basis.

Approximately 83% of the employees of the Company are represented by unions. Of those so represented, approximately 30% are represented by the Communications Workers of America, which is affiliated with the AFL-CIO, and approximately 53% are represented by the International Brotherhood of Electrical Workers, which is also affiliated with the AFL-CIO.

Under the terms of the three-year contracts ratified in September 1989 by unions representing associate employees, represented associates received a base wage increase of 2.25% and a cost of living increase of 1.15% in August 1991. Under the same contracts, associates received a Corporate Profit Sharing payment of $480 per person in 1992 based upon the Company's 1991 financial performance.